

**INDEPENDENT AUDITORS' REPORT**

The Inspector General,  
Library of Congress:

We have audited the 1996 consolidated financial statements of the Library of Congress (Library). We also have examined management's assertion, included in the accompanying management's report on internal controls over financial reporting, regarding the effectiveness of the Library's internal controls over financial reporting that were in place as of September 30, 1996. The objective of our audit was to express an opinion on the fair presentation of the Library's consolidated financial statements. The objective of our examination of management's assertion regarding internal controls over financial reporting was to express an opinion on the fair presentation of management's assertion. In connection with our audit, we also tested the Library's compliance with certain provisions of applicable laws and regulations.

In our opinion:

- The Library's 1996 consolidated financial statements are presented fairly, in all material respects, in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements, and
- Management fairly stated its assertion that it cannot provide reasonable assurance that internal controls in place at September 30, 1996, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets), but that internal controls were effective in assuring material compliance with applicable laws and regulations.

We noted:

- A material weakness in the internal controls related to the adequacy of security practices over information technology systems

- Reportable conditions related to:
  - Weaknesses in the controls over the financial reporting process
  - The completeness and accuracy of the capitalized nonbulk property and equipment records
  - The adequacy of safeguarding controls for property and equipment
  - Weaknesses in the controls over the financial reporting system application
  - The lack of a business continuity plan
  - The implementation of a Year 2000 compliant accounting system upgrade
  - The limitations on the Library's Inspector General (IG) oversight function
- Noncompliance with laws and regulations related to:
  - Use of certain revolving gift funds that exceeded the Library's scope of authority to accept gifts and use them to fulfill the donor's intent
  - Improper retention of certain money related to operation of the Cooperative Acquisitions Program

Our conclusions and the scope of our work are discussed in more detail below.

## **OPINION ON CONSOLIDATED FINANCIAL STATEMENTS**

We have audited the accompanying consolidated statement of financial position of the Library as of September 30, 1996, and the related consolidated statement of operations and changes in net position for the year then ended. These consolidated financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

In our opinion, the accompanying 1996 consolidated financial statements present fairly, in all material respects, the financial position of the Library of Congress as of September 30, 1996, and the results of its operations for the year then ended, in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements.

Our audit was conducted for the purpose of forming an opinion on the 1996 consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual funds. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

## OPINION ON MANAGEMENT'S ASSERTION ON THE INTERNAL CONTROL STRUCTURE OVER FINANCIAL REPORTING

We have examined management's assertion, included in the accompanying management report on internal controls over financial reporting (see Section 5), regarding internal controls designed by management to provide reasonable, but not absolute, assurance that the following objectives are met:

- Assets are safeguarded against loss from unauthorized acquisition, use, or disposition
- Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that have a direct and material effect on the consolidated financial statements
- Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and maintain accountability for assets

Management stated that because of the weaknesses described in its report, it cannot provide reasonable assurance that internal controls in place at September 30, 1996, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets), but that internal controls were effective in assuring material compliance with applicable laws and regulations.

In our opinion, management's assertion that because of the weaknesses described in its report, it cannot provide reasonable assurance that internal controls in place at September 30, 1996, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and to maintain accountability for assets), but that internal controls were effective in assuring material compliance with applicable laws and regulations, is fairly stated in all material respects, based upon criteria established under the internal control standards and financial systems standards presented in Appendices 2 and 3 of Title 2 of the General Accounting Office's (GAO) *Policy and Procedures Manual for Guidance of Federal Agencies*. We do not express an opinion or any other form of assurance on management's cost benefit statement.

As discussed in management's assertion, the following weaknesses exist in the design or operation of the internal control of the Library in effect at September 30, 1996.

- ***Security practices over information systems are inadequate.*** Physical and logical access controls do not adequately reduce the risk of unauthorized access, use, or damage to the Library's information systems. The Library has inadequate physical access controls to its data center and has not implemented a formal data security program. Programmers have access to critical "system" datasets, system engineers

have unlimited access to system data and files, and terminated employees are not removed from access to the Library systems in a timely manner.

- ***Weaknesses exist in the controls over the financial reporting process.*** The Library completed many of the tasks designed to meet financial reporting objectives in 1996. However, some important tasks were not fully performed or fully completed, including (1) performing satisfactorily all major subsystem reconciliations at September 30, 1996, (2) enhancing and monitoring the self-assessment and review of internal controls and accounting systems, (3) filling vacant financial management positions, (4) reviewing all accounts for reasonableness on a timely basis, (5) reviewing and reconciling property accounts, and (6) identifying and applying all relevant accounting policies and principles.
- ***Library records for capitalized nonbulk property and equipment are not complete and accurate.*** The subsidiary property and equipment records contain numerous errors in disposals, cost, acquisition dates, and completeness. Other weaknesses include inadequate supporting documentation for some assets, inconsistent capitalization policies for software, incorrect application of the method for capitalizing leased equipment, and improper estimations of depreciable lives of property and equipment.
- ***Safeguarding controls for property and equipment are inadequate.*** The Library has two systems for accounting for property and equipment, depending on the nature of the item. However, policies and procedures in place in either system are not sufficient to ensure adequate safeguarding of property and equipment.
- ***Weaknesses exist in the financial reporting system application controls.*** The Library's financial reporting system override report is not adequately reviewed by end-user management. Override data reporting is infrequent and is not distributed to management on a timely basis. Management is not required to approve override transactions that have occurred.
- ***The Library lacks a business continuity plan.*** Backup tapes and copies of system critical catalogs for the Library's systems are not stored in a secure location, and the Library has not developed a continuity plan that addresses disaster recovery.
- ***Year 2000 compliant software for financial systems has not been implemented.*** The Library has not upgraded its general ledger package and some supporting subsystems to the latest software releases to implement necessary changes for the year 2000. If the subsystems are not upgraded soon, the Library could lose functionality as the year 2000 problems begin.

- ***The Library's IG oversight function is limited.*** Current limitations on the IG's office reduce the effectiveness of its oversight function. These include (1) limitations on referring criminal complaints to the U.S. Attorney without prior approval from the Librarian, (2) limitations on management studies and inspections of Library operations, and (3) a dependency on the Librarian for funding resources.

A material weakness is a condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the consolidated financial statements will be prevented or detected on a timely basis. We believe the first weakness described above is a material weakness in the Library's internal controls.

We consider the remaining weaknesses, described above, to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated financial statements. We also noted other matters involving the internal controls and its operation that we do not consider to be reportable conditions that we are reporting to the Library's management in a separate letter.

Appendices A and B further discuss the material weakness and other reportable conditions, respectively. Other than the Year 2000 and the IG oversight function issues, these matters were also identified in the Library's 1995 audit report. Appendix D presents the current status of all prior year findings.

These conditions were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 1996 consolidated financial statements and this report does not affect our opinion on these consolidated financial statements. Through substantive audit procedures, which are detailed tests and analytical procedures performed to detect material misstatements in the classification of transactions, account balances, and disclosures in the consolidated financial statements, we were able to satisfy ourselves that the weaknesses described in Appendices A and B did not have a material effect on the September 30, 1996, financial statements.

## COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests, as part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatements, disclosed the following instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and the Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*.

***The Library operates gift revolving funds beyond the scope of its authority.*** In a 1991 report, GAO found that the Library's use of certain revolving gift funds exceeded its scope of authority under 2 U.S.C. 160 to accept gifts and use them to fulfill the donor's intent. Section 160 does not authorize the Library, without specific statutory authority, to set charges for goods and services provided through self-sustaining gift funds that (1) enlarge the funds beyond the scope of the donor's gift, (2) produce revenues for other activities, or (3) create a substantial surplus. During our 1996 audit work, we identified 11 revolving funds, none with specific congressional authorization, and all with fund balances in excess of the original gift. One fund had revenues of \$5.5 million.

***The Library retains certain money from its Cooperative Acquisitions Program in violation of 31 U.S.C. § 3302(b).*** As reported in 1995, the Library retains certain money relating to its operation of the Cooperative Acquisitions Program. For this service, the Library charges the participant for the direct costs of purchasing collection materials and for administrative expenses, which are based on a percentage of direct costs. In a January 30, 1997, opinion, GAO concluded that the Library may not retain money received from participants in the Cooperative Acquisitions Program to pay indirect costs or future contingencies. Because Congress has not authorized the Library to retain these funds, the Library must remit the funds to the U.S. Treasury as miscellaneous receipts in accordance with 31 U.S.C. § 3302(b).

These matters are discussed further in Appendix C.

We considered these instances of noncompliance in forming our opinion on whether the Library's 1996 consolidated financial statements are presented fairly, in all material respects, in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements.

## **RESPONSIBILITIES**

**Management's Responsibility.** Management is responsible for:

- Preparing the consolidated financial statements in conformity with the comprehensive basis of accounting described in note 1 to the consolidated financial statements
- Maintaining adequate internal control designed to fulfill control objectives
- Complying with applicable laws and regulations

**Auditors' Responsibility.** Our responsibility is to express an opinion on the 1996 consolidated financial statements based on our audit. Standards, identified below, require that we plan and perform the audit to obtain reasonable assurance about whether the 1996 consolidated financial statements are free of material misstatement.

We are also responsible for expressing an opinion, based on our examination, on management's assertion that it cannot provide reasonable assurance that internal controls in place as of September 30, 1996, met two objectives (that assets are safeguarded against loss from unauthorized acquisition, use, or disposition and that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and maintain accountability for assets), but that internal controls were effective in assuring material compliance with laws and regulations, based on criteria established under the internal control standards and financial systems standards presented in Appendices 2 and 3 of Title 2 of the GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*.

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of the Library's compliance with certain provisions of laws and regulations. However, the objective of our audit of the consolidated financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

To fulfill these responsibilities, we:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements
- Assessed the accounting principles used and significant estimates made by management
- Evaluated the overall financial statement presentation
- Assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements
- Obtained an understanding of the internal controls over financial reporting
- Obtained an understanding of the internal controls related to performance measures reported in the Overview of the Library's Annual Financial Report
- Assessed the design of performance measure controls and whether they had been placed in operation
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances
- Tested compliance with certain provisions of the following laws and regulations that may materially affect the consolidated financial statements:
  - Library's authorizing legislation
  - Copyright law
  - Anti-deficiency Act
  - 1995 Legislative Branch Appropriations Act

- Economy Act
  - Fair Labor Standards Act
  - Civil Service Retirement Act
  - Civil Service Reform Act
  - Federal Employees' Health Benefits Act of 1959
  - Federal Employees' Group Life Insurance Act of 1980
  - Legislation concerning recording obligations and balances available for obligation
  - Advertising Act
- Performed such other procedures as we considered necessary in the circumstances

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

We conducted our audit of the 1996 consolidated financial statements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06. We conducted our examination of management's assertion regarding the effectiveness of the Library's internal control over financial reporting in place as of September 30, 1996, in accordance with standards established by the American Institute of Certified Public Accountants. We believe that our audit and examination provide a reasonable basis for our opinions.

**Consistency of Other Information.** The Overview of the Library of Congress and the Stewardship Report in Sections 1 and 4, respectively, in the Library's Annual Financial report contain a wide range of data, some of which are not directly related to the consolidated financial statements. Professional standards require the auditor to read this information and consider whether such information, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, appearing in the consolidated financial statements. If based on such reading the auditor concludes that there is a material inconsistency, the auditor should determine whether the consolidated financial statements, the report, or both require revision.

The information presented in the Overview of the Library of Congress and the Stewardship Report has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on it.



**Distribution.** This report is intended solely for the information and use of the Library's Office of the Inspector General, management of the Library, others within the organization, and Congress. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 28, 1997  
Washington, D.C.

## **APPENDIX A MATERIAL WEAKNESS**

### **SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS ARE INADEQUATE**

Physical and logical access controls and physical security measures are inadequate to protect information systems resources from unauthorized access, unauthorized use, or damage. Additionally, the Library has not implemented security policies and procedures to ensure that critical data are protected and that Library resources are restricted to authorized individuals. These weaknesses increase the risk that the Library's data and equipment are not properly safeguarded.

#### ***Physical access controls do not restrict the data center to necessary personnel***

There are inadequate controls over physical access to the Library's Data Center. The doors to the Data Center are locked but the keys are issued by the Buildings Services staff rather than by the Information Technology Services (ITS) staff. As a result, individuals who are not involved in the operation of the Library's computer systems can gain access to the Data Center. Additionally, visitor logs documenting authorization for access are not maintained and visitors are not escorted while performing tasks in the Data Center. Without adequate security, the Data Center could be subject to unauthorized use or accidental or intentional destruction. Furthermore, the potential exists for unauthorized changes to be entered into the system.

#### ***The Library has not implemented a formal data security program***

The Library does not have a comprehensive end-user data security program. While the Library issued Library of Congress Regulation 1620, *Computer Security Policy of the Library of Congress*, in November 1995, there is no ongoing program to promote data security and end-user awareness. Information system resources need to be protected from misuse. Security is the responsibility of all employees, and the commitment by Library management is critical to the success of the security program. Without a comprehensive end user security and awareness program, the Library could encounter problems such as the introduction of computer viruses, exposure of sensitive information, and misuse of government computer resources. Furthermore, when sensitive data and files are not adequately secure, the potential exists for inadvertent errors or unauthorized manipulation of data.

#### ***Programmers have access to critical "system" datasets***

Programmers and end users have access to production datasets and programs for the Federal Financial System (FFS) and the Access Control Facility (ACF2). In some instances, this

access includes the ability to write and allocate to production files and provides individuals with the ability to change and delete key data or programs, or make unauthorized modifications to security files. Currently, end users and programmers have direct access to the production system to conduct payroll processing, initiate check disbursements, and maintain the security software; this access compromises system and data integrity.

***Individuals have access to ACF2 "Special Privileges"***

Systems engineers have unlimited use of ACF2 privileges, which are not subject to access or generalized resource rules. Certain privileges (i.e., non-cancel, audit) should be strictly monitored and only used when authorized. While access to ACF2 privileges has been restricted, we believe access should be further limited. With unlimited use and inadequate monitoring of sensitive ACF2 privileges, management has inadvertently allowed unrestricted access to the entire network. Uncontrolled access to systems-wide data and files raises questions relative to data integrity and the reliance that can be placed on the system.

***Former employees are not removed from Library systems in a timely manner***

The Library does not have policies and procedures to ensure that terminated employees' access to systems are removed in a timely manner. There is currently a two-week delay between the date of actual termination and the date that Data Security personnel are notified of the termination. Data Security personnel recognize this problem and report that Human Resources has not been responsive to ITS management's request to provide more timely termination notices. The Library has also not established policies and procedures to identify internally relocated employees, vendors, and interns so that their access can be modified or terminated based on changes in job status.

Furthermore, the Library does not distribute access reports by office. These reports would allow management to verify and evaluate department employee access on a routine basis. Without cooperation and commitment between the various offices within the Library, logical access controls cannot be adequately restricted, increasing the potential for unauthorized access to data by current and former employees.

**Recommendations**

We recommend that:

- the Library implement Data Center access controls that restrict Data Center access to authorized staff. Visitors logs should be used to document all other authorized access, including time and purpose of the visit.

- the Library implement an end-user security awareness program, which should include annual user affirmation of their responsibilities relative to data security and ongoing data security education. The Library should develop, document, and implement data security policies, procedures, and standards for each processing platform (i.e., mainframe, minicomputer, microcomputer, local area network, and data communications).
- the Library implement policies and procedures to properly restrict access to production data. This should include procedures to ensure that any changes made to production data have been authorized by management.
- the Library develop, document, and implement policies and procedures for use of ACF2 privileges to ensure that privilege use is warranted, monitored, and reviewed by appropriate management.
- the Library develop, document, and implement comprehensive policies and procedures requiring Human Resources to inform Data Security personnel of all terminated employees before their termination date. We also recommend that information concerning vendors and internally relocated employees be forwarded to Data Security personnel before the termination or relocation date.
- ITS establish policies and procedures to prepare and distribute, by office, current access configurations for Library employees. These reports should be issued on a routine basis and should include, at a minimum, a user's identification, his or her access to all systems, applications, transactions, etc., and the type of access assigned (e.g., read, write, execute). These reports should be reviewed and signed by appropriate management and returned to ITS Data Security personnel.

## **APPENDIX B REPORTABLE CONDITIONS**

### **WEAKNESSES EXIST IN CONTROLS OVER THE FINANCIAL REPORTING PROCESS**

This is the second year that the Library has prepared proprietary financial statements in accordance with the CFO Act and Executive Branch directives for financial statement reporting, as further described in note 1 to the consolidated financial statements. In considering the improvements the Library has made since fiscal year 1995, we believe the Library has made significant progress toward its goal of providing timely and accurate proprietary financial statements.

During 1996, the Library's Financial Services Directorate (Financial Services) updated its Financial Management Improvement Plan for the Fiscal Years 1997-2004. The Plan established four main objectives to be accomplished in the next seven years. The Plan incorporates the prior material weaknesses in its objectives and provides a list of tasks necessary to accomplish those objectives. The main objectives include improving the financial systems, improving proprietary accounting and support for the annual audit, and improving financial staff capabilities.

Financial Services successfully completed many of the tasks designed to meet financial reporting objectives, including:

- Establishing a timetable for closing entries and preparing a preclosing trial balance
- Establishing format and documentation necessary to complete cash reconciliations
- Completing and reviewing reconciliations of all Treasury accounts
- Establishing a process for closing the general ledger proprietary accounts
- Configuring the reporting system to generate trial balances supporting asset and liability accounts
- Coordinating with the Development Office to properly recognize pledges receivable
- Conducting planning meetings with auditors before close of the fiscal year
- Updating the Trust Fund Manual to include information on acceptance of the Funds and restrictions of the Funds
- Implementing most of the IG and cash management review recommendations
- Preparing a detailed listing of all leases outstanding and future lease payment commitments and analyzing leases for capitalization

- Preparing an accrual for accounts payable at year end and the documentation supporting that accrual
- Updating directives on disbursements, deposits, reconciliations and property
- Performing a review of outstanding obligations from prior years to determine if they remain valid

However, some important tasks were not performed; a description of these tasks follows.

***Satisfactorily performing all major subsystem reconciliations at September 30, 1996***

Several year-end reconciliations of detailed account balances were not completed, accurate, or fully documented at September 30, 1996. These included the Copyright Division customer deposit account balance, the Copyright Division licensing cash account balance and custodial investments, the Cataloging Distribution Service customer deposit account balances, the capitalized property account balances, the FEDLINK customer account balances, and the obligated and unobligated balances in the Order Divisions subsystem (ACQUIRE).

Financial Statement Directive (FSD) 96-8, *Guidelines for Financial System Reconciliations*, was issued and effective on September 30, 1996, the last day of the fiscal year. This directive requires regular reconciliation of subledger accounts and balances in a timely manner.

Although the directive was not effective until September 30, 1996, all year-end accounts should have been fully reconciled to the general ledger. Reasons for unreconciled balances included having problems with obtaining useful and meaningful general ledger reports for reconciliation purposes and having untrained personnel attempting reconciliations for the first time. In the case of capitalized property, the Library intended to rely on a physical inventory to uncover errors and omissions in property detail, so no attempt at reconciliation was planned until periods beyond year end.

***Fully enhancing the self-assessment and review of internal controls and accounting systems through training of the program and subsidiary system financial managers and monitoring the performance of the self-assessments***

Per FSD 96-10, *Guidelines for Limited Financial Management System (FMS) Reviews and Reports*, three elements comprise the reviews: (1) an evaluation of the financial system using the prepared questionnaire as a guideline, (2) transaction testing where necessary to make a reasonable decision as to the adequacy of the controls, and (3) a documentation of the review, testing, results, and conclusions. FSD 96-10 states that the documentation will be reviewed selectively by Financial Services and the Office of Inspector General (IG). The IG's office plans to conduct audits of selected Limited Control Reviews in 1997.

We read the responses of the limited control reviews completed by several Library financial managers and found instances in which the respondents failed to provide enough information for the reader to assess whether the review was fully completed or properly conducted. Some of the managers expressed positive responses to control adequacy in areas in which our conclusions were different. Some reviews did not address the resolution of findings identified in the prior year. We questioned the completeness and validity of several of the reviews and received a more complete response for some. Our review was conducted after Financial Services had forwarded the limited control reviews to the IG's office, which indicated that Financial Services considered the reviews complete and accurate.

We attended one of the training classes conducted for program and subsidiary financial managers. These classes were aimed at enhancing financial managers' understanding of the internal control self-review process and of the documentation necessary to support the testwork for the review. We do not believe the training class provided enough useful information to help financial managers understand how to identify, test, and document relevant internal controls. The classes were not tailored to accounting cycles, although an attempt was made to cover areas of interest for those managers in attendance. The length and depth of the classes did not address the "how tos" of the process, which is what the managers need to know to be able to satisfactorily perform the reviews.

***Filling vacant positions and hiring additional professional staff***

As of the first week in March 1997, four key accounting positions remained unfilled and one position, the Cash Management Analyst, was filled that week. The unfilled positions include the Budget Officer, the Operations Officer, the Reports and Controls Officer, and a Systems Accountant. Two of these open positions were identified in the prior year as a reportable condition. The Library's current hiring process precludes timely staffing of essential positions which affects Financial Services' ability to respond quickly to financial inquiries, review proprietary statement accounts for accuracy, produce adequate supporting documentation, and produce timely trial balances or other financial information needed for management decisionmaking.

Insufficient staffing in key accounting positions continues to be an area of concern, particularly now that the Library has committed to preparing annual audited proprietary financial statements. Insufficient staffing in systems accounting and supervisory accounting has placed significant burdens on existing personnel, particularly with regard to audit preparation responsibilities, including reconciliation reviews and identification and implementation of new and emerging accounting policies and principles. Because the Library has elected to adopt most of the reporting requirements to which Executive Branch agencies are subject, the Library has accepted the responsibility for keeping informed on the latest developments and applying them to its financial statements.

Library management is keenly aware that adequate staffing over the next decade remains a challenge and a priority as a significant portion of its workforce nears retirement age. It is common knowledge that the Library's hiring process, which requires months to fill a position, has caused several tasks to fall behind in the accounting department. All managers, including those in Financial Services, must consider these factors when developing their department's future budgets. Without proper overlap of trained personnel teaching new personnel, normal workload suffers and significant progress cannot be made.

The Library is planning to implement activity based costing in the near future; however, we are concerned about the Library's ability to do so given the vacancies in these key positions.

***Reviewing all accounts for reasonableness on a timely basis***

Financial Services conducted account balance reviews from the date the fiscal year 1996 ledger was closed in mid-December through early March. These review procedures identified many adjustments to the balances. While the review was comprehensive, the process spanned several months, hampering the Library's ability to efficiently and effectively close out the 1996 fiscal year.

***Reviewing and reconciling property accounts and correcting accounting procedures to have transactions affecting those balances recorded regularly throughout the period***

As described earlier, the property account balance was not properly reviewed for completeness and accuracy. A property acquisition reconciliation was not completed for the fiscal year 1996, and the process was not begun until the quarter ended December 31, 1996. The December reconciliation, however, was not completed as of March 1997. The unexpected retirement of the accountant responsible for these reconciliations contributed to Financial Services' inability to complete them; however, there was sufficient time before December 31, the accountant's retirement date, to have completed the fiscal 1996 year-end reconciliation.

***Identifying and applying relevant accounting policies and principles***

Several accounting policies and principles were not applied or were incorrectly applied to the financial statements as of September 30, 1996. Those policies and principles include the proper treatment of the unrealized gain on investments in mutual funds, which are classified as available-for-sale securities (FASB No. 115); the proper recognition of interest expense and reduction of liabilities on capitalized leases (Title 2 or SFFAS 5); the proper treatment of donated assets transferred to and recorded in the appropriated fund (OMB 94-01); and weaknesses in the proper and complete disclosures for several balance sheet items, notably the aging of pledges receivable (FASB No. 116), the method of estimating equipment purchased before a specified date for which no supporting documentation can be found (SFFAS 2), and inclusion of the net book value of donated assets in "Net position - Other" rather than "Invested Capital" in the Net Position section of the financial statements (OMB 94-01).



Recommendations

We recommend that Financial Services:

- Remain diligent on requiring reconciliations of major accounts and subsystems to the general ledger according to the schedule outlined in FSD 96-8, *Guidelines for Financial Systems Reconciliations*. We recommend Financial Services assign follow-up of these reconciliations to qualified personnel within the department. Financial Services is assigning accountants to help those financial managers in program offices who were unable to successfully reconcile their accounts at year end. We understand Financial Services is also working with the FEDLINK financial director to design an enhanced report to aid them in their reconciliation processes. Regular and timely review of reconciliations and immediate attention to program office problems are key to ensuring that the general ledger detail is accurate and complete throughout the year. This must be a regular and ongoing process to be effective. We further recommend Financial Services and Contracts & Logistics (C&L) resume their reconciliation procedures of property and equipment acquisitions. We noted this area as the weakest in sufficiently complying with FSD 96-8, even subsequent to year end.
- Continue to provide financial managers with Limited Control Review training that is tailored to their specific needs and provides a more "how-to" approach rather than a theoretical one. For example, the financial managers could be surveyed to determine what benefits they obtained from the classes and what they felt may have been lacking. Grouping attendees by the type of transactions they process (i.e., deposits or receipts, procurement, payroll, and property and equipment) would allow classes to be more tailored to the audience, and attendees would then receive information most relevant to their duties.
- Tailor the Limited Control Review internal control questionnaires to the specific transactions or areas processed by the managers, excluding those areas that are irrelevant. We noted several instances where managers answered questions because they were asked, even though the areas were not their responsibility.
- Coordinate with the IG's office as to the timing and extent of their planned audits of selected Limited Control Reviews in 1997. If the IG's work plan will not cover a substantial number of program subsystems, Financial Services must make plans to review them so management can assert that reviews are properly completed and controls are effective.
- Revise the timing for conducting some of the annual Limited Control Reviews. Assigning different reviews every quarter of the fiscal year will provide assurance that controls are functioning during the year and not just at year end, and will allow Financial Services and

the IG's office to schedule their evaluations more evenly over the year to ensure timely follow-up of the review process.

- Delay implementing their planned activity-based costing project until full staffing of key positions is achieved.

### **LIBRARY RECORDS FOR CAPITALIZED NONBULK PROPERTY AND EQUIPMENT ARE NOT ACCURATE AND COMPLETE**

Current internal controls in the Library are inadequate to ensure accurate and complete recording of nonbulk capitalized property and equipment in the financial statements. The Library's Financial Services Directorate revised its property and equipment directive, FSD 96-7, *Guidelines for Accounting for Capitalized Property and Depreciation*, in response to weaknesses found during the Library's first financial statement audit conducted in 1995. FSD 96-7 calls for a quarterly reconciliation of subsidiary to general ledger records for purchased equipment costing \$10,000 or more (the capitalization threshold); a quarterly recording of depreciation and reconciliation of accumulated depreciation; a requirement to capitalize qualifying leases; an annual physical inventory of all items costing \$10,000 or more; a strengthened requirement for other service units to notify C&L when furniture and equipment is received by them; and a requirement to maintain supporting documentation for all capitalized property and leased equipment. This directive became effective September 30, 1996, the last day of the fiscal year. Consequently, many requirements designed to strengthen the controls over capitalized property and equipment were not in place and fully functioning during 1996.

The detail schedules comprising the net book value of fixed assets maintained by C&L at September 30, 1996, and the related depreciation expense for the year then ended contained numerous errors, including the following:

- Disposal errors - Items that had been identified as surplus or disposed of during the year-end physical inventory were not removed from the year-end depreciation schedule.
- Valuation errors - These included the erroneous capitalization of supplies accompanying equipment purchases, failure to capitalize shipping costs as part of the cost of an asset, and failure to deduct vendor discounts from the capitalized cost of an asset.
- Acquisition date errors - These resulted from an inability to locate supporting documentation; instead, the physical inventory date was erroneously used to calculate current and accumulated depreciation.

- Lack of supporting documentation for assets located in overseas offices and for furniture acquired in previous fiscal years that were added to the records this year.
- An inconsistent capitalization policy for software installation costs.
- Donated equipment not identified and recorded until audit procedures identified the associated donated revenue recorded in a gift fund.

We also noted that the IBCFACS system, used for the Library's depreciation schedule, does not separately display current year depreciation expense, only the net book value at the balance sheet date. C&L staff manually recalculated current year depreciation for each asset and recorded these amounts on the property and equipment detail schedules; several errors occurred in their manual recalculations.

The Library uses depreciable lives ranging from 4 to 20 years for equipment and furniture. We questioned whether the useful lives assigned to several assets represented a reasonable estimate, since many pieces of equipment we selected were items with no more than five-year capital lease terms, were replaced within a few years, or were subject to high volume use. For instance, copiers are depreciated over ten years, although many are replaced before the end of the lease term, which never exceeded five years. Accounting principles require that capital lease assets be depreciated over the shorter of the length of the lease or the estimated life of the asset.

Finally, the Library restated its property and equipment balances and net position as of October 1, 1995, to reflect those assets not previously identified and recorded in last year's financial statements. This restatement included capitalization of qualifying equipment leases. Errors were noted in the accounting method used to expense interest and reduce the related lease liability. For leases, the Library used the estimated fair market value to value the capital lease asset, even though FSD 96-7 states that "the cost under a capital lease shall be equal to the lesser of the net present value of the lease payments calculated or the fair market value of the asset." Net present value was not calculated and compared with the fair market value for any of the Library's capital leases.

### **Recommendations**

To provide proper internal controls over capitalized property and equipment transactions, we recommend that:

- C&L strengthen its procedures for reviewing information entered into the IBCFACS database. C&L must establish integrity of the data currently recorded in its property and equipment database by reviewing all input for errors and making the necessary corrections.

- C&L assign an employee who does not have data entry responsibility to review the subsidiary system detail on a regular basis to avoid future errors, which can be minimized with a routine review process. Errors can also be minimized if the source documents from which entries are made are clear and accurate. For example, procurement often uses acronyms and names that are specific to one vendor instead of using generic terms that clearly describe the asset being purchased.
- C&L provide frequent communication to other service units, reminding them of their responsibility to report any acquisitions that come directly to their unit. FSD 96-7 states that service units must notify C&L but is not specific as to *how* or *when* the other units should provide notification. Until compliance with FSD 96-7 becomes commonplace within the Library, we recommend C&L send a quarterly request to those offices that directly receive property acquisitions or information regarding donated assets, like the Congressional Research Service (CRS) and the Development Office, to report any acquisitions or donations received.
- C&L be given the responsibility to review and approve all procurement request transactions initiated by other service units, so knowledgeable staff can compare offers and make sound procurement decisions.
- The Library expand the scope of its next physical inventory of capitalized assets and visit all areas of the Library that may potentially house fixed assets to ensure completeness of existing property records. The unrecorded donated assets we identified during our audit were not discovered by C&L during the year end physical inventory because only areas recorded as having existing capitalized assets were visited, and the donated assets were not located in any of those areas.
- The Library reevaluate its useful life policies for capitalized property and equipment and determine whether the current lives are reasonable. Any change in policy should be documented and applied consistently to all new and existing assets in that category. Because this is only the second year the Library has prepared financial statements, we recommend the Library correct all existing assets and revise its policies retroactively for consistency.
- The Library gain an understanding of the proper accounting treatment for capital leases. Personnel involved in capital lease valuation and recording should understand how to determine the net present value of future lease payments for comparison to the asset's fair market value when recording cost and how to properly amortize interest expense and reduce the associated lease liability annually. Personnel should refer to Title 2 or SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, for guidance.

- The Library consider using the current general ledger depreciation module for valuing and recording depreciation on assets that require capitalization or obtaining another package that will provide an interface with the general ledger and will calculate current period depreciation reports. The IBCFACS system is a bar code system meant to control the safeguarding of the assets and was not designed as a depreciation package. Although the general ledger's depreciation package provides no property location control as the IBCFACS system does, the general ledger system would capture all expenditures for property and equipment over the capitalization threshold without requiring a manual entry and would provide accurate depreciation information that would be recorded directly into the general ledger. The IBCFACS system could still function as a property control system for all assets over the safeguard control threshold, which is currently \$300.

### **SAFEGUARDING CONTROLS FOR PROPERTY AND EQUIPMENT ARE NOT ADEQUATE**

The Library has two systems for accounting for property and equipment, depending on the nature of the item. However, policies and procedures in place at the Library are not sufficient to ensure adequate safeguarding of property and equipment.

#### ***Contracts & Logistics***

C&L is responsible for the tracking and safeguarding of nonbulk property and equipment costing \$300 or more. Their system includes placing a bar code on each property item and recording the bar code number, Library location, acquisition date, and cost in the IBCFACS database. The Library conducted a physical inventory of all items over \$10,000 in October 1996. While the Library has reasonable assurance that this method accounts for substantially all its property, the system will only work effectively if policies and procedures are conducted consistently on a Library-wide basis. We noted several instances where equipment was not recorded in the tracking system, including unrecorded fiscal year 1996 additions of donated property that were not communicated as received by the department in which they reside. For example, property acquired and housed at Wright-Patterson Air Force Base was not received from the vendor at C&L and was not communicated as received by Wright-Patterson; no complete acquisition reconciliation was performed by C&L and Financial Services during the year. In another case, property was received by the Congressional Research Service (CRS) and CRS did not inform C&L of the receipt in a timely manner.

In addition, C&L management represented to us that, as a result of their physical inventories, they often found the location of property or equipment was different than that reported in the Library's asset tracking database. This occurred when service units traded pieces of property or equipment for another piece in their service unit without notifying C&L. This practice caused the C&L staff to spend many labor hours tracking the item's new location and updating the database accordingly.

***National Library Service***

The second system is used by the National Library Service (NLS) of the Library to track bulk-purchased playback machines for the blind and physically handicapped. This system consists of two separate databases that track the machines for different purposes. NLS uses a database called Blind and Physically Handicapped Inventory Control System (BPHICS) to track machines as they are acquired. BPHICS is maintained by an independent contractor who receives data from the machine-lending agencies that retain custody of the machines until they are lent to patrons. The independent contractor maintains another system, which creates a monthly machine report (MMR), this is sent to the independent contractor monthly by the machine-lending agencies and indicates the status of machines in the lending agencies' custody. These reports classify machines as either "on hand, lent to patrons, in repair, or location unknown." Each system contains machine models not included in the other system. The weaknesses in internal control are caused primarily by the decentralized system that works across state and federal lines. Currently, the independent contractor and the lending agencies can make changes to the system without informing NLS.

**Recommendations**

***Contracts & Logistics***

FSD 96-7, *Guidelines for Accounting for Capitalized Property and Depreciation*, was not completed until the last quarter of fiscal year 1996 and was not officially effective until September 30, 1996. This directive reiterates the need for those Library service units receiving either purchased or donated property to report that information in a timely manner to C&L. Until this practice is routine, communication remains a major weakness in the Library's ability to safeguard its property and equipment. To help strengthen the communication process, we recommend appointing a staff person at the directorate level to be held accountable for instituting Section 3.3.1 of FSD 96-7 so that all acquisitions, dispositions, and transfers of property are managed at the local level. This person would be responsible for:

- Communicating with C&L (on a monthly, bimonthly, or quarterly basis, as deemed appropriate) any movement of property or equipment
- Maintaining a copy of the equipment tracking detail (IBCFACs printout) of items in their area and noting any changes to it
- ensuring that every item qualifying for control is properly bar coded; any item without a bar code should be reported to C&L at the time of discovery

We recommend raising the threshold for bar coding and tracking assets from \$300 to \$500 or \$1,000 per individual item to further ease the burden of tracking low dollar value property and equipment items. Other government agencies use these thresholds and we believe labor hours

could be better used in strengthening existing control weaknesses instead of tracking items with a low dollar value.

### ***National Library Service***

We recommend NLS consider merging the reporting performed by the two different playback machine tracking systems (BPHICS and MMR) and begin to capture all data within the BPHICS system. NLS would need to ensure that BPHICS and the MMR contain data for the same time period, since the MMR database has more historical information than BPHICS. The BPHICS system would need to be modified to capture the collective status by MLA of all machines in the custody of machine-lending agencies, as well as acquisition information by serial number, which is its current function. The result should generate an output report of the collective status of machines by machine type.

This would improve the accuracy of reporting from the lending agencies. We also recommend establishing an acceptable range of "lost machines" for each lending agency, based on historical figures of patrons they serve and the current age and number of machines in their custody. In addition, we recommend requiring the independent contractor to compare totals for each machine model reported by each lending agency. No system updates would be accepted from lending-agency reports if the reported figures fall outside the established acceptable range. When the independent contractor receives the monthly reports from the lending agencies, it should compare the totals for each machine category with the acceptable ranges. If the reported figures fall outside the ranges, the machine-lending agencies should be required to investigate the discrepancies and justify or correct them.

Finally, we recommend NLS review and monitor both the input from the lending agencies and the output from the independent contractor on a regular basis, and document a plan for visiting lending agencies to perform regular equipment audits.

### **WEAKNESSES EXIST IN THE FINANCIAL REPORTING SYSTEM APPLICATION CONTROLS**

The Library's financial reporting system override report, which is distributed by the Library's financial reporting Systems Administrator, is not adequately reviewed by end-user management. Based on review of override report distribution dates, override occurrence data and reporting are infrequent and are not distributed to end-user management on a timely basis. Furthermore, policies and procedures have not been established to require review and monitoring; end-user management is not required to verify authentication of override transactions by providing notification to the financial reporting Systems Administrator. Without adequate review by end-user management of system override activities, the Library is susceptible to unauthorized transactions being processed. This increases the potential for inadvertent errors or unauthorized manipulation of data.

**Recommendation**

We recommend that the Library distribute the override security report on a routine basis and implement policies and procedures requiring end-user management to review and monitor override transactions.

**THE LIBRARY LACKS A BUSINESS CONTINUITY PLAN**

The Library does not have a current business continuity plan. Backup tapes are stored at the Library's warehouse in Landover, Maryland, but the tapes are not kept in a secured location; there has been at least one instance when the tapes have been misplaced. System critical catalogs are printed weekly, but the printouts are maintained in a distribution bin in the data center. There is no copy of the catalogs or operating procedures stored with the backup tapes. The master catalog is password protected, but all the systems programmers know the password.

The Library has taken steps to assess the business impact of various disasters and a contractor has been hired to conduct the business impact analysis. Questionnaires will be distributed to users and critical applications will be identified over the next several months. These are the first steps in developing a business continuity plan. Without a current, tested business continuity plan, the Library is exposed to the potential loss of computer resources for an extended period.

**Recommendations**

We recommend that the Library develop a business continuity plan that includes current disaster recovery plans for mission critical information technology resources. The plan should be developed based on a business impact analysis and should identify information technology systems that are critical for the support of mission critical areas. After the impact analysis has been completed, a business continuity plan should be developed for those areas deemed mission critical to the Library. We also recommend that the Library evaluate the feasibility of contracting for an alternate data center processing hot site.

This effort should not be a one-time event. It is a process that requires periodic testing, review, and adjustments as the business continuity requirements of the Library are reassessed. The plan should include the mainframe, UNIX systems, and all other computer-based processing.



## **YEAR 2000 COMPLIANT SOFTWARE FOR FINANCIAL SYSTEMS HAVE NOT BEEN IMPLEMENTED**

The Library has not upgraded their general ledger package and some supporting subsystems to their latest releases to implement necessary changes for the year 2000. The software vendor for the general ledger package has made the new release available to correct software deficiencies. The changes included in the new version are necessary for the financial system to continue operating in the year 2000 and beyond. Without implementing the new releases in a timely manner, the Library could lose functionality as the year 2000 begins to impact transactions; budgeting and multi-year contracts could be impacted before October 1, 1999. Since implementations do not always occur as planned, allowances should be made for potential delays. Additionally, as the year 2000 approaches, programmers are becoming more scarce and the cost of implementing Year 2000 compliant software could increase.

### **Recommendation**

We recommend that the Library evaluate each of its financial systems and subsystems and allocate the resources necessary to update the software to Year 2000 compliant versions as soon as possible.

## **THE LIBRARY'S INSPECTOR GENERAL OVERSIGHT FUNCTION IS LIMITED**

In our review of the Library's internal audit function, and draft legislation and related documents submitted by the Library in relation to this function, we found the following conditions that impair the Inspector General's oversight ability:

- ***Limitations on investigations.*** The investigative branch of the Inspector General (IG) does not have the authority to refer criminal complaints to the U.S. Attorney without prior approval from the Office of the Librarian. This requirement could be considered as causing unnecessary delays in the referral process, but none have been noted by the IG in fiscal year 1996. Even though there have been no documented instances where the IG has been prohibited from referring a criminal complaint, there should not be an *appearance* of influence by the Librarian, particularly on matters involving individuals within the Library of Congress.
- ***Scope limitations.*** In preparing new regulations for one operation of the IG function, the IG requested authority to conduct studies and issue reports related to management reviews and inspections of Library operations. The Office of the Librarian did not grant the IG's request for authority to conduct these types of reviews. The previous regulation did not carry this responsibility, nor does it exist in statute for the IG. However, it is not uncommon for an IG to perform this type of review which is intended to improve the economy and efficiency of operations. In addition, the IG does not have the authority to

review all areas of the Congressional Research Service, which is a major component of the Library and service provider to the Congress.

- ***Funding issues.*** The Office of Inspector General does not have a separate budget authority and is dependent on the funding and resources available at the discretion of the Librarian of Congress. In addition, the Office of the Librarian approves all IG expenses related to travel. Even though the IG reports directly to the Office of the Librarian for budget purposes, budget formulation and execution is under the responsibility of the Financial Services Directorate.

The Librarian of Congress created the Office of Inspector General in April 1988 without the prerequisite authority to carry-out IG's functions. Appointed by the Librarian, the IG now reports to the Librarian and may be removed from office by him. The IG has no subpoena power and Library of Congress regulations set the responsibilities of the office. The Librarian of Congress wrote to the Library's oversight and appropriation committees in 1996 to reiterate the Library's support of enactment of legislation but, noting that legislation had not been introduced, offered additional criteria for an IG in the Legislative Branch.

In 1995, the Library submitted draft legislation for a statutory Inspector General's Office, modeled after the statutory office established for the Government Printing Office in 1988. This legislation is also similar to the IG offices established for over 30 non-Cabinet agencies as part of the 1988 amendments to the Inspector General Act of 1978. The draft legislation would provide a separate appropriation to the IG and require the IG to report semi-annually to Congress. Current authority and regulations for the Library of Congress Office of Inspector General are contained in Library of Congress Regulation 1519-1, *Audits and Investigations by the Office of the Inspector General, Office of the Librarian*. This regulation requires that all audits conducted by the IG shall conform to the standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, and functions. These standards require that the auditor be independent in fact and appearance.

### **Recommendation**

The Librarian of Congress should consider actions to follow-up and resubmit draft legislation to establish statutory authority for the Office of Inspector General at the Library of Congress. These actions should be taken in coordination with the testimony given by the Library of Congress to the Senate Committee on Rules and Administration in March 1997, reaffirming the Library's commitment to seek statutory authority for the IG. Title I of the proposed legislation granting statutory authority to the Library's IG would enhance the authority, status, and independence of the IG to detect and prevent waste, fraud, and abuse in the Library's administration and operations and would eliminate any perception that the Library's IG is not fully empowered to act independently.

## **APPENDIX C**

### **MATTERS OF NONCOMPLIANCE WITH LAWS AND REGULATIONS**

#### **THE LIBRARY OPERATES GIFT REVOLVING FUNDS BEYOND THE SCOPE OF ITS AUTHORITY**

GAO found that the Library's use of certain revolving gift funds exceeded its scope of authority under 2 U.S.C. 160 to accept gifts and use them to fulfill the donor's intent (*Library of Congress Revolving Trust Funds*, FGMS-80-76, September 24, 1980; *Financial Audit: First Audit of the Library of Congress Discloses Significant Problems*, GAO/AFMD-91-13, August 22, 1991). In fiscal year 1988, the Library operated 12 revolving funds with revenue ranging from \$940 to almost \$3.7 million per fund, to finance a number of activities. Gifts designated to be used for self-sustaining activities created these funds, which have grown to many times larger than their original size. The independent accountant's report on the 1995 financial statements noted that the condition continued to exist.

During our fiscal year 1996 audit work, we also noted the existence of this condition. We identified 11 revolving funds, none with specific congressional authorization and all with fund balances in excess of the original gift. One fund had revenues of \$5.5 million.

According to 2 U.S.C. 160, the Library is authorized to "accept gifts or bequests of money for immediate disbursement in the interest of the Library, its collections, or its services."

However, as the GAO report concluded, section 160 does not authorize the Library, without specific statutory authority, to set charges for goods or services provided through self-sustaining gift funds, that (1) enlarge the funds beyond the scope of the donor's gift, (2) produce revenues for other activities, or (3) create a substantial surplus.

Since issuance of the GAO reports, the Library has sought, but not received, specific statutory authority to operate these gift revolving funds. As a result, the Library continues to operate the funds beyond the scope of its authority.

#### **Recommendation**

In order to comply with 2 U.S.C. 160, we recommend the Library continue to seek specific statutory authority to operate gift revolving funds.

**THE LIBRARY RETAINS CERTAIN MONEY FROM ITS COOPERATIVE ACQUISITIONS PROGRAM IN VIOLATION OF 31 U.S.C. SECTION 3302(b)**

The independent accountant's report on the fiscal year 1995 financial statements noted that the Library retained certain moneys relating to its operation of the Cooperative Acquisitions Program, which is conducted through six overseas field offices that purchase collection materials for participants, usually a university or a library. For this service, the Library charges the participant for the direct costs of materials and for administrative expenses based on a percentage of direct costs. The Library deposits money received in connection with this program into a Treasury account and retains funds that it does not spend. During fiscal year 1995, it was not clear if the Library had the authority to retain unspent funds.

We noted that this condition continued to exist in fiscal year 1996. According to Library officials, accounts for this program have an approximate balance of \$2.3 million at September 30, 1996. Officials estimate that of this amount approximately \$1.2 million is a liability representing the refund that would be due if all participants canceled their requests at fiscal year end and \$0.6 million represents unliquidated obligations for items on order as of September 30, 1996.

In a January 1997 opinion, GAO concluded that the Library may not retain money received from participants in the Cooperative Acquisitions Program to pay indirect costs or future contingencies. Because Congress has not authorized the Library to retain these funds, it must remit the funds to the U.S. Treasury as miscellaneous receipts in accordance with 31 U.S.C. § 3302(b). The Library has responded by requesting legislation to exempt the Cooperative Acquisitions Program from this section of the law.

**Recommendations**

To comply with the General Accounting Office's decision on this matter, and in the absence of specific legislation authorizing the avoidance of applying 31 U.S.C. § 3302(b), we recommend that the Library:

- Cease retaining money received from participants in the Cooperative Acquisitions Program to pay indirect costs or future contingencies
- Remit money to the U.S. Treasury that would have been used to pay indirect costs or future contingencies that is included in the balance of \$2.3 million at September 30, 1996; the Library should remit these fees as the liability is reduced

## **APPENDIX D**

### **STATUS OF PRIOR YEAR FINDINGS**

#### **1. MATERIAL WEAKNESS**

**The financial reporting preparation process is inadequate to meet proprietary reporting requirements.**

##### **Prior Year Recommendations**

- Maintain routine controls, such as reconciliations, to keep data reliable.
- Develop procedures to ensure orderly and effective closing of books at the end of a period.
- Develop a strategic plan for fiscal year 1996 year end close and report preparation, and document an achievable timeline for related tasks.
- Enforce proper revenue source coding of transactions.
- Enhance the types of reports currently available on FMS and ensure system will prepare any reports/trial balances necessary for the audit.

##### **Library of Congress Comments**

The Library incorporated recommendations from financial statement audit, IG reports, and internal control review reports into the Library's financial management improvement plan.

##### **KPMG's Assessment of the Library's Corrective Action Plan**

Many actions were undertaken, although some were not implemented until year end or subsequent to year end.

Recommendations were partially implemented. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

## **2. MATERIAL WEAKNESS**

**Reconciliations of cash with Treasury and of various general ledger balances with subsidiary systems are not routinely performed.**

### **Prior Year Recommendations**

- The Librarian should periodically perform and document reconciliations between summary and detailed records, and resulting adjustments should be made to the records, if necessary.
- Library management should implement and monitor basic procedures to properly manage and account for cash and other assets.
- The Copyright Office should continue to maintain the detail listing of royalty receipts and post, in summary, to FFS.

### **Library of Congress Comments**

- The Library adopted Title 2 standards and is working to implement them. The primary Treasury reconciliation was in fact up-to-date as of September 30, 1995, and two other secondary Treasury reconciliations were completed in March 1996.
- The Library will develop and implement procedures for internal control techniques in accordance with strategic plan priorities.
- Financial Services will maintain the Copyright Licensing Division control account and Copyright Licensing will maintain the detail listing. The two systems will be reconciled regularly.

### **KPMG's Assessment of Library's Corrective Action Plan**

Recommendations were partially implemented. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

### **3. MATERIAL WEAKNESS**

**Library property and equipment records are not reliable or complete and portions of property and equipment are not adequately controlled.**

#### **Prior Year Recommendations**

- The Library should establish two budget object class codes: one for assets capitalized and one for assets expensed. Management should post an entry to capitalize equipment at each month's end and reconcile the additions to capitalized assets with the assets expensed.
- The Library should perform a review of entire IBCFACS ledger for completeness and accuracy and complete a physical inventory of assets. This process should include obtaining supporting documentation for the cost basis and acquisition dates.
- For bulk-purchase playback machines, an asset listing should be maintained that identifies, by agency location, the total number of units by acquisition date and bulk purchase amount. The listing should be periodically updated for additions and deletions. Further, the listing should be reconciled monthly to the agency machine reports.
- The Library should maintain a listing of all leases, both capital and operating. All existing leases with total payments over \$10,000 should be analyzed to determine if they should be capitalized.

#### **Library of Congress Comments**

- The Library partially completed adding an estimated 75,000 furniture items to its property database by year end 1995. Also, in 1995, the Library completed its first physical inventory of serialized equipment and is using the information to correct and validate the database.
- The Library is prioritizing improvements to the property management system, which includes review for accuracy and adequate documentation, revision of playback machine equipment records, completion of furniture inventory, development of a system to capture data for the system, and development of a system to track and control leases.

#### **KPMG's Assessment of the Library's Corrective Action Plan**

The Library performed a review of its IBCFACS ledger for completeness and accuracy, capitalized its qualifying equipment leases, accumulated supporting documentation for its capitalized assets, compiled a depreciation schedule for its playback machine bulk purchases,

and performed a year-end physical inventory of all capital assets. However, some weaknesses still exist. See reportable conditions, "Library Records for Capitalized Nonbulk Property and Equipment are not Accurate and Complete" and Safeguarding Controls for Property and Equipment are not Adequate," in this report.

#### **4. MATERIAL WEAKNESS**

**Current Information Technology Services (ITS) practices expose the Library to risk of unauthorized transactions, theft and/or misuse of data processing assets, and loss of data and programs for all library computer center and network activities.**

The following weaknesses were identified:

- An excessive number of programmers can make changes to production data.
- An excessive number of individuals have access to ACF2 "special privileges."
- Programmers have access to critical "systems" datasets.
- Some ACF2 security software parameters are not used effectively.
- User profiles exist in the security tables for individuals who are no longer employed by the Library.
- No formal security plan exists that documents guidelines for administrative security.
- Various individuals have multiple logon IDs for the system.
- Physical security over the computer operations room, which is within the larger ITS area, does not prevent unauthorized personnel from gaining access.

#### **Prior Year Recommendations**

- Prohibit system personnel from accessing Write and Allocate for production data.
- Grant read-only access to production data to application end users who require knowledge of FFS.
- Conduct ongoing reviews to ensure only appropriate personnel have access.



- Grant access to datasets on a “need-to-know” basis only. The Quick logon function should be disabled and passwords should be expanded to between five and eight characters.
- Human Resources should in a timely manner report employee terminations to strengthen security procedures.
- Review various user IDs to determine appropriate authority of each ID.
- Restrict access to the computer room and facilities to authorized personnel.

**Library of Congress Response**

- The Library is working to eliminate the need for staff to have Write and Allocate access to production data sets. ITS has reduced the number of staff with these capabilities.
- ITS will meet with other agencies who use FFS to evaluate their ACF2 security profiles and procedures.
- ITS plans to eliminate the Quick logon feature and expand the password length to at least five characters.
- ITS plans to work with Human Resources to obtain timely information.
- The Library plans to remove the development staff from the computer room and will continue to seek authorization for Architect of the Capitol (AOC) to equip doors with badge readers.

**KPMG’s Assessment of Library’s Corrective Action Plan**

The Library has eliminated the need for staff to have Write and Allocate access to production data sets, however, other findings remain. See material weakness, “Security Practices Over Information Technology Systems are Inadequate,” in our report.

## **5. REPORTABLE CONDITION**

**The internal financial reporting process should be enhanced to provide management with more meaningful information.**

- Match budget and actual accounting to the mission of the Library.
- Match performance statistics to the service components. Improve budget versus actual reporting for appropriated expenditures. Implement cost allocations where significant.
- Implement commitment accounting for significant planned/budget expenditures.

### **Prior Year Recommendations**

- The Library is phasing in the financial management system over several years. Additional automated interfaces were implemented in 1995 (FEDLINK and IMS) and the Order Division was implemented in 1996.
- Inventory management, activity-based costing, and performance measurement phases are scheduled for later years.
- Commitment accounting was implemented in fiscal year 1996.

### **KPMG's Assessment of Library's Corrective Action Plan**

- Automation of planned subsystem interfaces and implementation of commitment accounting were completed in 1996.
- Implementation of other phases of budget to actual analysis, cost allocations and integrating performance measures into the budget process have not been undertaken.

See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

## **6. REPORTABLE CONDITION**

**The Financial Services Directorate needs to receive authorization for and fill its positions to provide more useful information to management.**

### **Prior Year Recommendations**

The Library needs to identify 1996 and 1997 resources to fill important accounting positions, several of which require knowledge of activity-based costing, the CFO Act and generally accepted accounting principles.

### **Library of Congress Comments**

The fiscal year 1997 budget request includes \$269,828 to hire four additional professional accountants to support the financial statement audit process and help implement audit recommendations.

### **KPMG's Assessment of Corrective Action Plan**

Several key positions remain unfilled. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

## **7. REPORTABLE CONDITION**

**Deficiencies in certain controls over the Library's new financial management system application security expose the Library to risk of unauthorized transactions, incorrect data, and misuse or loss of data.**

### **Prior Year Recommendations**

- Review current access authority for all employees to determine appropriateness of security levels granted.
- Perform an analysis regarding the types and frequency of overrides currently being performed. Appropriate management personnel should review the log to ensure each override is properly authorized.

**Library of Congress Comments**

- The senior operating accountants, accounting division supervisory level employees, disbursing officer, and assistant's security profiles were changed to remove their ability to enter or correct transactions. Other positions will be reviewed.
- The Library has implemented a procedure in which supervisors are notified of override actions and are responsible for reviewing them for appropriateness.

**KPMG's Assessment of the Library's Corrective Action Plan**

The Library has reviewed and appropriately corrected access authority for the financial management system application. Our finding regarding override action still exists. See reportable condition, "Weaknesses Exist in the Financial Reporting System Application Controls," in our report.

**8. REPORTABLE CONDITION**

**The Library's self-assessment and review of its internal control and accounting systems are inconsistent with audit and other findings.**

**Prior Year Findings**

- Financial Systems managers should receive formal training on conducting internal control reviews.
- The Chief Financial Officer should establish a method to monitor subsystems and controls, develop action plans to correct identified problems, and continuously monitor corrective actions. The IG's office should be involved in testing and reviewing the questionnaires annually.

**Library of Congress Comments**

- Limited control reviews were not planned for fiscal year 1995 because implementation of the new financial system would require new review processes. Upon learning that a financial audit would be conducted in 1995, the reviews were prepared in short notice, which allowed for insufficient time for training and follow-up.
- The fiscal year 1996 reviews will include training for financial managers and will include follow-up procedures on the reviews. Findings will be incorporated into the financial management improvement strategic plan.

**KPMG's Assessment of Corrective Action Plan**

Implementation and monitoring of Limited Control Reviews could be strengthened. See the reportable condition, "Weaknesses Exist in Controls Over the Financial Reporting Process," in our report.

**9. REPORTABLE CONDITION**

**Lack of a formal business continuity plan exposes the Library to loss of data and resources.**

**Prior Year Recommendation**

The Library should develop a comprehensive business recovery plan with established goals.

**Library of Congress Response**

In January 1996, the Library formed a Disaster Recovery Management Team to develop a plan to address this issue. The Library has successfully executed financial management system database recovery procedures.

**KPMG's Assessment of the Library's Corrective Action Plan**

A lack of policies and procedures still exist. See reportable condition, "The Library Lacks a Business Continuity Plan," in this report.

## **10. REPORTABLE CONDITION**

**Procedures and control over cash handling, check processing, and certain disbursing office responsibilities need improvement.**

### **Prior Year Recommendations**

- The Library should take immediate corrective action on cash receipt findings and develop a systematic plan to address the control weaknesses.
- The segregation of duties should be strengthened in disbursing.

### **Library of Congress Response**

The Library is evaluating all cash receipt findings from the financial audit and the cash receipt audit and will incorporate the results into the overall strategic plan.

### **KPMG's Assessment of Corrective Action Plan**

These problems have been satisfactorily resolved.

## **11. REPORTABLE CONDITION**

**Trust fund accounting and investing are not subject to sufficient review and oversight to prevent misclassification of funds and to ensure that investments comply with legal requirements.**

### **Prior Year Recommendations**

- Enhance general ledger coding to track spendable earnings separate from restricted gains.
- Establish procedures requiring documentation evidencing legal counsel's review of all significant trust donations as restricted or unrestricted and evidencing acceptance of gifts by the Trust Fund Board.
- Review all of the Library's trust funds by legal counsel for accuracy of restricted and unrestricted balances.
- Prepare monthly or quarterly financial statements, including balance sheets, for each significant fund.

**Library of Congress Response**

- The Library will review its procedures to require a formal document review of all trust funds by general counsel and the Chief Financial Officer. The review will be documented.
- The Library believes the “Status of Funds” reports currently produced are sufficient and producing additional statements would not be cost beneficial.

**KPMG’s Assessment of Corrective Action Plan**

- The review of trust fund documents by legal counsel is currently in process.
- A separate monthly or quarterly financial statement for each significant trust fund would not be cost-effective to produce.

**12. CONTROLS OVER SAFEGUARDING OF COLLECTIONS**

**Prior year findings**

- The Library should prepare a formal risk assessment and a comprehensive security plan.
  - The plan should include all parties essential to its success (ISS, ITS, labor unions, AOC, Office of IG).
  - The Library should identify all significant risks to its collections.
  - In assessing risk associated with various items in its collection, the Library should assess the information value, the likelihood of being able to replace the items, the threats to those items, and the base of customers likely to use those items.
  - The Library should leverage the relevant information that already exists within the Library, such as its own security surveys and the planning done by the Preservation Directorate.
- The Library should establish clear lines of authority and responsibility for securing the collections, as well as mechanisms to hold individuals accountable for results.

- Once all of the risks have been identified, the Library should determine what controls are in place to mitigate these risks. As the Library identifies weaknesses in the control structure, the cost associated with addressing these weaknesses should also be estimated. The Library must weigh the costs and potential benefits of safeguarding controls.
- The Library should prepare a comprehensive plan to address the weaknesses in its control structure.
- The Library should ensure that all aspects of the assessment and plan are documented. The initiatives should be incorporated into the performance plans of the applicable Library personnel.
- The Library should define and apply specific standards of care (in terms of risks that are acceptable and the costs of mitigating them) to reasonably assure itself that risks are reduced to an acceptable level.

**KPMG's Assessment of the Library's Action Plan**

The Library has begun to draft a comprehensive security plan and is in the development stages of performing its first Library-wide risk assessment for the Collections. The current status of the Library's internal controls over safeguarding of Collection assets and our recommendations are addressed in our report entitled, "Report of Independent Accountants on Management's Assertion About the Effectiveness of Internal Controls Over Safeguarding Collection Assets," found on page 6-41 of this report.



## **Report of Independent Accountants on Management's Assertion About the Effectiveness of Internal Controls Over Safeguarding Collection Assets**

The Inspector General,  
Library of Congress:

We have examined management's assertion, which is presented in Section 5, that it cannot provide reasonable assurance that the Library of Congress' internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition was generally effective as of September 30, 1996.

Our examination was made in accordance with *Government Auditing Standards*, issued by the Comptroller of the United States, and with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over safeguarding of collection assets, testing, and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

Because of inherent limitations in internal controls, unauthorized acquisition, use, or disposition of collection assets may occur and not be detected. Also, projections of any evaluation of internal controls over safeguarding of collection assets to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In its assertion letter, the Library of Congress has defined the following control criteria for safeguarding collection assets against unauthorized acquisition, use, or disposition:

- Bibliographic controls, which include but are not limited to: cataloguing, archival processing, and arrearage reduction.
- Preservation controls, which include but are not limited to: use of surrogates (digital, microform, service copies of audiovisual materials); collections care programs; disaster preparedness; Top Treasures security; de-acidification; conservation of individual items; preservation treatment of processed items; preservation research and testing program to define actions for deacidification, storage, audio preservation, and studies of longevity of new digital media, etc.; and Congressionally-mandated preservation programs such as the National Film Preservation Board and American Television and Radio Archive.

- Inventory controls, which include but are not limited to: the automated circulation control system, manual shelf lists, finding aids and other detailed descriptions; and registry of items lent for exhibition.
- Physical security controls, which include but are not limited to: perimeter security (e.g., theft detection devices); secured receiving and holding areas for materials not yet accessioned into the research collections, including the Copyright Office; storage areas closed to the public and all staff except those who require daily access in order to perform their jobs; reader registration; security in reading rooms (cameras, police patrols, etc.); caging high risk collections; and secured loan stations.

The Library asserts that specific controls over items in the collection assets depend upon the item's format, demand for and condition of use, and the value and risk assessment for that item.

The *Integrated Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission would classify the aforementioned Library criteria as "control activities." The Integrated Framework also includes the following elements of internal control reporting.

- Risk assessment and collection security plan - The Library must assess the risk of unauthorized acquisition, use or disposition of the collection.
- Control environment - The Library must influence the control consciousness of its personnel by instituting an environment that makes internal control a priority.
- Information and communication - The Library must determine what information is needed by management to prevent or timely detect control failures, and make that information readily available to management at all times.
- Monitoring - The Library must establish policies and procedures for monitoring compliance with internal controls by personnel assigned those tasks.

Adapting these elements to the *Internal Control-Integrated Framework's* definition of internal controls over safeguarding assets to fit the Library's circumstances can be summarized as follows:

*Internal control over the safeguarding of collections against unauthorized acquisition, use or disposition is a process, effected by the Library's management and other personnel, designed to provide reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or significant information value is reduced to an acceptable level.*

Applying this definition using the Library's control criteria, a weakness in safeguarding controls is significant enough that it should be included in the Library's assertion if it results in either:

- significant risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or significant information value or
- significant risk that senior Library management does not have sufficient information about the extent to which the Library's objectives concerning the safeguarding of the collections are being achieved.

### **Opinion on Management's Assertion**

The Library is in the early design stages of establishing a comprehensive risk assessment and collection security plan to identify the risks to the collection, the planned or established controls that must be in place to mitigate the risks, the policies and procedures required to enforce the controls and the information management needs to monitor the effectiveness of the controls. Until these tasks are completed, Library management will not have reasonable assurance that the risk of unanticipated loss (theft, mutilation, destruction, or misplacement) of collection items of significant market value, cultural or historical importance, or information content is reduced to an acceptable level.

In its assertion, management describes significant weaknesses in preservation controls, inventory controls, bibliographic controls and physical security controls over collection assets as of September 30, 1996. Our recommendations for these and other significant weaknesses identified by us during our audit are outlined in the following section, *Internal Control Weaknesses in Safeguarding of Collection Assets and Recommendations for Improvement*. Our current year recommendations and assessment of the Library's initiatives are intended to build on the findings and recommendations made in fiscal year 1995.

In our opinion, management's assertion that, as a result of the weaknesses in controls described in its report, it cannot provide reasonable assurance that the internal control structure over safeguarding collection assets against unauthorized acquisition, use, or disposition, was generally effective as of September 30, 1996, is fairly stated based upon the criteria described above.

KPMG Peat Marwick LLP

March 28, 1997  
Washington, D.C.

## **INTERNAL CONTROL WEAKNESSES IN SAFEGUARDING OF COLLECTION ASSETS AND RECOMMENDATIONS FOR IMPROVEMENT**

### **THE LIBRARY LACKS A COMPREHENSIVE COLLECTION SECURITY PLAN OR FORMAL RISK ASSESSMENT FOR THE SAFEGUARDING OF COLLECTION ASSETS**

Two major studies were conducted for the Library in 1996 by outside consulting firms. Consultants conducted a physical security survey to identify weaknesses in the Library's physical security controls. The survey's conclusions described a lack of effort by management in identifying major security threats by collection area and by value of items, of protecting collection items as they move between buildings, of clearly distinguishing security responsibilities of the Library and those of the Architect of the Capitol (AOC), and of providing for a Director of Security to develop and execute security-related policies and procedures.

The second study was conducted by consultants who addressed security issues as part of an overall management study. Major findings on security also addressed the lack of a Director of Security to assume responsibility for all security issues, including the security of the Library's heritage assets, a budget structure which does not provide information on security costs, insufficient security training for Library personnel, the lack of a single, comprehensive set of security requirements for the Library's collections programs, and the lack of a risk management program that assesses all Library risks associated with current operations.

The Library is in the early development stages of establishing a comprehensive risk assessment which will identify the significant risks to the collection, the proposed or established control activities to mitigate these risks, the policies and procedures necessary to implement the necessary controls, and the information and methods by which management will monitor the effectiveness of the established controls.

The Library's Integrated Support Services is in the process of drafting a physical security plan to ensure and improve physical security at the Library. The plan seeks to develop, staff, and manage a centralized physical security organization that will encompass all major threats to the Library's physical security, whether they originate outside or inside the Library. The Plan calls for the creation of a new position, Director of Security, who will report directly to the Deputy Librarian. (This position was created in 1996 and filled in February 1997.) The Plan lists collections and cultural assets among the primary Library of Congress security interests.

The Library has not defined what it considers an acceptable level of risk and what constitutes "reasonable assurance" in determining that the internal control structure over safeguarding of collection assets against unauthorized acquisition, use, or disposition, is in place and operating.

With regard to acceptable risk, the Library must carefully consider the costs versus the benefits of implementing new controls, as the institution faces restraints from budgetary, personnel, infrastructure, and space limitations.

### **Recommendations**

After carefully reviewing data gathered this fall for the Library's annual Limited Control Reviews required under Financial Services Directive FSD 96-10, Library Services Directorate and other service unit heads have concluded a complete risk assessment of the heritage assets, including internal control documentation and implementation, is necessary but will take several years to complete. We recommend the Library begin developing a strategy for conducting the assessment. The strategy should address short and long term objectives or milestones, projected budget and personnel costs necessary to achieve each milestone, and timeframes under which each milestone is expected to be accomplished. Library Services Directorate plans to develop risk assessment and internal control implementation models in several service units during fiscal year 1997. These models will be used as the framework for other service units and custodial divisions to complete similar assessments in fiscal years 1998 and thereafter, until all units are complete.

We recommend the Library Services Directorate organize and manage the formation and implementation of the Library-wide risk assessment. The risk assessment should identify risks inherent not only in the custodial divisions of the Library, but also those Library service units that maintain temporary custody of collection assets. The managing committee should include representatives from Copyright, the Law Library, and Integrated Support Services, as well as those units within the Library Services Directorate who will play a significant role in risks shared by other units, such as Cataloging and Preservation. We recommend the Senior Executive Committee act as an oversight body for the Library-wide risk assessment.

The risk assessment should prioritize control measures by identifying those risks that would cause the greatest loss to the largest number or the most invaluable assets of the Library. The assessment should consider the likelihood of the occurrence of the identified risks and the cost versus benefit of reducing or eliminating those risks with effective control measures. For instance, is the Library likely to suffer the greatest loss of collection assets from a physical security weakness, such as exposure to a terrorist attack, or is the greatest loss likely to result from preservation weaknesses, such as inadequate space or substandard storage facilities for housing current and future acquisitions?

The risk assessment should address all service and custodial units separately, since each unit is unique and each has varying degrees of risks related to the four categories of control criteria. The risk assessment should include: the Copyright Division, since a vast majority of collection assets are obtained through copyright deposits; Integrated Support Services, since many collection assets enter the Library through the loading dock and move within the Library's

hallways and tunnels; and the Law Library, which has processing and custodial responsibility for the Library's holdings on legal subjects.

The risk assessment for each unit should segregate risks by collection asset format (monograph, video, audio cassette, compact disc, print, photograph, manuscript, map, globe, etc.) and by location (reading room, processing area, stacks).

The risk assessment should seek to rank and categorize risks as described above and document the priority of controls needed based on the level of risk. Each service unit and custodial division should document their existing controls and compare them to the prioritized list of controls in the risk assessment. Once it has been determined which priority controls exist and which need to be established, policies and procedures to implement these controls should be developed on a service unit and custodial division basis with the responsibility for implementing and maintaining these controls assigned to the appropriate Library personnel in each unit or division.

The risk assessment should establish common reporting procedures for communicating control effectiveness to management on a regular basis. The procedures should be standardized so that results by division or unit can be compared and compiled to provide useful information on a Library-wide basis.

In developing the risk assessment overall and by service unit, the Library should leverage existing information gathered from internal assessments and reviews and those of outside contractors, such as the physical security assessment performed by the Library's Protective Services in November 1996, and the contractor security review conducted from October 1995 through June 1996. The Library should utilize the knowledge of the Inspector General's office in identifying known security weaknesses. Existing information regarding weaknesses in preservation should consider the Preservation Directorate's current plans as well as the Strategic Facilities Plan developed by Facility Services. To identify existing inventory and bibliographic control risks, the Library should review needs identified by the Catalog and Support Office during their recent development of a Request for Proposal for an Integrated Library System.

The physical security controls of the risk assessment should correspond with Integrated Support Service's physical security plan currently under development. The responsibilities for physical security should be clearly established between the service and custodial units and Integrated Support Services. The risk assessment should also consider the role of the AOC and what limitations the Library may have with regard to physical security in areas where AOC has responsibility.

## **A WEAK CONTROL ENVIRONMENT AND INCOMPLETE CONTROL ACTIVITIES EXIST FOR THE SAFEGUARDING OF THE COLLECTION ASSETS**

The Library has made isolated improvements to safeguard collection assets during fiscal year 1996. These are identified in management's assertion letter in Section 5 of this report. We have assessed the effectiveness of some of these controls during our audit. However, management has identified a number of significant weaknesses in physical security, preservation, bibliographic and inventory controls that still exist as of September 30, 1996. We have identified additional weaknesses as a result of our audit. These weaknesses are not all-inclusive, rather, they are weaknesses identified by us and confirmed through inquiry with Library management. These weaknesses and our recommendations are presented below.

### **Physical Security**

**Consistent security measures.** Management's assertion of controls over the collections outlines many initiatives the Library has undertaken to mitigate physical security risks. Those we have observed include the completion of a study of the CSC security audit conducted in fiscal year 1996, hiring a full-time Director of Security, drafting of a Library-wide security plan, the acquisition and installation of electronic access control systems and x-ray machines and metal detectors at key entrances and exits, insertion of theft detection targets, expansion of security measures in reading rooms, and research into marking of library materials.

Our observations identified inconsistencies in levels of security in reading rooms, in work areas where collections are handled, among collection items in transit both inside and outside the Library's Capitol Hill facilities, and in item level controls on collection pieces stored in custodial divisions.

We observed that some reading rooms are fully equipped with security guards, Knogo gates, security cameras, clear sight lines, and written policies for patrons desiring access to collection materials. Other reading rooms lacked security personnel, secure exits, written policies, or some other security measure that would discourage theft or mutilation of items while in use by patrons. The degree of security measures a reading room maintains appeared to be dependent on how much of a priority these measures were to the particular division chief, and not necessarily the result of a comprehensive study or evaluation by the Library's security division as to where the greatest risks reside.

We observed that many work areas where collections are accessioned do not limit physical access to only those staff that perform the work. Other work areas contained poor sight lines and unlimited access, increasing the risks to collection items even further. (Work areas we observed with these weaknesses include the Copyright Receiving and Processing Areas, the Law Library research and processing areas, Exchange & Gift's basement work areas in the Madison Building, Prints & Photographs work areas and the Motion Picture division receiving area. Areas we observed with limited access by card reader control include the Exchange &

Gift Division work areas on the sixth floor, decks of the general collections, rare books and special collections in the Jefferson Building, preservation areas, the general collection book arrival and departure area, and the Music Division stacks.)

We noted many areas where collection items and copyright deposit materials were left unattended during transport or while awaiting processing. These areas include the Copyright mailroom, the entryways to the Copyright Data Preparation areas for both 407 and 408 type deposits, the fifth floor cataloging hallways and areas inside the cataloging departments, the Recorded Sound division offices, the Motion Picture receiving area, the Law Library processing area, and any areas where uncovered book trucks are used to transport items and are left in unsecured areas where the general public and Library staff have unlimited access.

***Tracking Collection Items.*** We noted a general lack of tracking procedures for collections that leave a service unit, division or facility within the Library bound for another Library location. We noted the Landover facility had no tracking procedures for materials bound for the Capitol Library buildings. There are no consistent accountability procedures to log in items leaving or returning to the facility. Collections from this facility are requested via telephone, fax or the Automated Book Paging System (ABPS). For those items requested via ABPS, copies of request slips are retained for a certain period of time. Items that enter the Library through the loading dock are sent to the appropriate division without tracking slips or some type of content description. It is unclear how the division or the Loading Dock could track a missing item when a record of what was originally received by the dock and delivered to the division is not maintained.

***Item Level Security.*** Item level security is inconsistently applied to collections within the Library. While it may be practical from a resource standpoint to equip general collection books with tattlestrips only when they reach the circulation desk for check out, new acquisitions generally receive tattlestripping only after they are cataloged. This procedure exposes new collection items to risk when they enter the Library, because new acquisitions are not stamped with any Library of Congress marking or tattlestripping, are not recorded anywhere in the inventory, and are generally transported in unprotected carts. Nontraditional formats (CD's, cassettes) cannot be subject to tattlestripping without damaging the format.

### **Recommendations**

***Consistent security measures.*** We recommend integration of the Library's overall physical security plan, currently under draft, with the Library's planned risk assessment. Weaknesses uncovered by the collection divisions as a result of their risk assessments should be brought to the Security Director for consideration and resolution. Until both the security plan and risk assessment can be fully completed, the extent of weaknesses in physical security controls will not be fully known.



***Tracking Collection Items.*** We recommend transfer documentation be implemented as part of the Library's policies and procedures that will be adopted as a result of the risk assessment of the Library's collections. Proper transfer documentation ensures that materials transferred from one location to another within the Library are completely and accurately recorded. Transfer documents should be signed by both the transferring party and the party accepting the transfer or delivery. Both employees must verify the completeness and accuracy of the transfer.

***Item Level Security.*** We recommend that policies be formulated documenting what item level security will be implemented for different categories of assets. The Collection Management Division informed us that the Library has embarked on a program to tag high-risk material first, and all items sent for commercial binding are tagged as part of the binding process. However, Library management does not see the need to tag every item in the collection, nor do they believe it would be cost effective to do so as security can be achieved in alternative manners. One solution proposed by the Collection Management Division is to tag certain categories of material comprehensively and other areas randomly.

### **Bibliographic and Inventory Control**

The most important initiative the Library has undertaken is the proposal for a new computer system designed to help the Library improve physical and bibliographic control over its collections. The Integrated Library System (ILS) is expected to integrate information on various library functions, such as collections development, acquisitions, inventory control, serials management, cataloging, binding, preservation and circulation, into one system and would replace the two existing manual shelf lists, the Serials Visible File, and the Manual Shelflist. Our tour of the Library included viewing the shelf lists that house millions of cards where important bibliographic and inventory data is maintained. These systems, along with many other databases and finding aids maintained by the Library, are not currently integrated and require significant man-hours to maintain.

Bibliographic controls are weak in areas where severe arrearages exist and in existing collections that were acquired before the procedure to catalog items upon acquisition began. It is common among divisions that arrearages, or uncataloged materials that have been accessioned into the Library's collections, are not identified by an inventory list. Only the approximate number of items and type of format can be generally identified until cataloging. Therefore, no one knows exactly "what" is in the arrearage, by item.

The Music Division has approximately 1.7 million pieces of uncataloged music scores in the Landover facility and many of the 10 million total holdings in the Madison Building are uncataloged as well. Some of these pieces are included in the Library's arrearage reduction plan, but many are not. The Division's processing unit does not have adequate space and staffing to achieve reduction of uncataloged musical materials.

Most single maps received by the Geography & Map Division prior to 1969 are not cataloged, but are arranged geographically by date and subject (referred to as their "titled collection"). One and a half million of the titled collection has not been cataloged because these items did not meet the arrearage criteria outlined in the arrearage reduction plan (they were not recently acquired).

The Library does not have a standard method of counting items in arrearage. This causes inconsistencies in reporting arrearage reduction numbers, arrearage backlog numbers and in comparing arrearage reduction goals and progress from one division to another. Manuscripts asserted that a recent effort has been undertaken to standardize the consistency in counting arrearage items, which should achieve as satisfactory a consistency as can be achieved given the variety of formats and professional standards that exist today. We were not able to address the effect of this initiative on the Library's bibliographic controls during our field work.

### **Recommendations**

We support the need for the Library to acquire an Integrated Library System (ILS), which will integrate many systems, provide more current and accessible bibliographic and inventory information, and provide the Library with available technology to keep pace with current and future demands.

It is clear from our observations that complete item level control is not easily achievable or perhaps even desirable. The most cost beneficial approach appears to be that of item level control for the most valuable or most irreplaceable items, and folder level or collection level control for other items. For instance, the Manuscripts Division can only bibliograph collections at the collection in the bibliographic database level (many items, such as letters, make up a "collection") and folder level in the finding aids (again, folders contain many items). There are approximately 56,000,000 items in the Manuscripts Division and staff limitations prevent the division from providing item level inventory for everything. Some collections, such as the Presidential Papers, for instance, receive item level control, although the funds to complete the task came from special appropriations or gifts. The management of the Prints & Photographs Division shared the same view, stating to us that "it is dubious that we will ever have the opportunity to re-catalog collections already cataloged or convert paper based records to machine readable forms, given the size of our current arrearages and the continuing staff attrition."

In assessing the need for item level cataloging, we believe the Library's collections safeguarding risk assessment should include documentation outlining what parts of the collection held by each division are item level catalogued, which are collection level catalogued, and which have neither. This information would help determine the nature and amount of uncataloged

materials in each division and would help assess where additional cataloging may be needed to reduce risk of loss to the collections.

### **Preservation Control**

Physical storage space is inadequate in amount and type of temperature and humidity controls. Management has identified these inadequacies in its assertion letter. The Library completed a Strategic Facilities Plan, spanning fiscal years 1997-2004, to document each service unit's facility requirements. The Plan describes several initiatives Library Services have identified to expand or enhance existing storage space.

The Library has taken several steps to mitigate the risks to its collections from environmental damage and damage from handling as the items are served to patrons. The Library creates duplicates of many of its rare collection pieces (films, recordings, prints and photographs) to serve to patrons so the originals can be preserved. The extent of surrogates Library-wide has not been quantified or assessed for cost versus benefit when compared to other security measures.

Our observations noted weaknesses in proper preservation control in the following collection areas.

- The Law Library rare books are stored with the general collection items in the subbasement of the Madison Building. The rare books should be stored in a separate protected area with limited access. The division has devised temporary measure (hasps and locks) in the stacks, but additional and more permanent provisions are needed.
- Photoduplication Services states that Landover does not have an adequate environment for storing master negative microforms, even though they are currently being stored there.
- The Music Division asserts that environmental damage has occurred in many stack areas of the Madison Building, where roof leakage is a potential threat to collection items.
- The Motion Picture Broadcast and Recorded Sound Division (MBRS) has overcrowded facilities and other inappropriate conditions that limit this division from properly following standardized guidelines for storage and handling of all types of formats, particularly when those formats are not the standard format collected by that division (i.e., manuscripts housed by MBRS). MBRS states that the less than perfect atmosphere in the Madison building, however, is better than the Landover facility for storing items. Moreover, not all film collections in Landover are in cold storage as they should be to prevent deterioration.
- The Exchange & Gift Division noted that their space for processing incoming materials was reduced a year ago when they moved part of their division from the sixth floor to the basement of the Madison Building. The space in the basement is not always adequate to house all materials that go through Routing and Receiving. Integrated Support Services does plan to take action to secure the corridor.

- The Prints & Photograph Division stated that flooding is chronic at the Landover facility and filth and sewage back-up have also been problems there. The Suitland vaults lack humidity control and contribute to the accelerated deterioration of the nitrate negatives, which is much worse than merely avoiding accelerated deterioration.
- We noted that very old print media (19th century) from the Motion Picture Division is not stored in a temperature/humidity controlled environment. They are housed on standard shelving in the Madison building's Motion Picture Division stack area.

### **Recommendation**

We recommend the facility requirements be considered in the overall collections risk assessment when considering preservation risk. Each division should include in their assessment any effects the acquisition of new facilities will have on their short term and longer term preservation risks.

We recommend that the Library consider the use of surrogates in its risk assessment and compare the cost and benefits of this deterrent against others on a division by division and format by format basis.

## **THE LIBRARY LACKS EFFECTIVE MANAGEMENT INFORMATION FOR AND MONITORING OF THE COLLECTION ASSETS' INTERNAL CONTROLS**

A lack of collection security objectives in annual performance plans of custodial chiefs results in a collections security weakness. Meaningful and regular management information about whether security goals are being established and met are essential to a strong control environment. The performance plans of security officials and custodial division chiefs, as well as those in other service units who are responsible for collections security, should include measurable objectives for assuring all collections controls are implemented and functioning.

### **Recommendation**

We recommend integration of the performance plan process with the Library's collections risk assessment. Once the major controls over safeguarding of collection assets have been identified from the risk assessment, each division should develop measurable tasks that personnel should be performing to assure those controls are functioning. Division management should be held accountable for monitoring personnel assigned to these tasks. Reporting these results should be integrated into the Library's annual performance plans in order that management receives the information needed to assess the effectiveness of the internal controls over the collection assets.